

IN THE SUPERIOR COURT OF THE STATE OF DELAWARE

INCYTE CORPORATION,	)	
	)	
Plaintiff,	)	
	)	
v.	)	C.A. No. N15C-09-055 MMJ CCLD
	)	
FLEXUS BIOSCIENCES, INC.,	)	
TERRY ROSEN, and JUAN JAEN,	)	
	)	
Defendants.	)	

Submitted: January 20, 2016

Decided: April 19, 2016

Upon Defendants' Motion to Dismiss

**GRANTED IN PART  
DENIED IN PART**

**MEMORANDUM OPINION**

Richard H. Cross, Jr., Esq. (Argued), Joseph Grey, Esq. (Argued), Christopher P. Simon, Esq., Cross & Simon, LLC, Attorneys for Plaintiff

Jonathan A. Patchen, Esq. (Argued), Taylor & Company Law Offices, LLP, Patricia Carson, Esq. (Argued), Daniel Forchheimer, Esq., Leora Ben-Ami, Esq., Ashley Borom, Esq., Kirkland & Ellis LLP, Gregory V. Varallo, Esq. (Argued), C. Malcolm Cochran, Esq., Katharine Lester Mowery, Esq., Richards, Layton & Finger, P.A., Attorneys for Defendants

**JOHNSTON, J.**

## **FACTUAL AND PROCEDURAL CONTEXT**

This action arises from allegations that Defendants Flexus Biosciences, Inc., Terry Rosen, and Juan Jaen misappropriated Plaintiff Incyte Corporation's trade secrets concerning the use of IDO-1 inhibitors to treat cancer. Incyte contends that Defendants induced Dr. Jordan Fridman, a former Incyte employee, to divulge confidential information regarding Incyte's IDO inhibition research, thereby unjustly enriching Defendants in the amount of \$1.25 billion.

Dr. Fridman began working at Incyte in 2003, in senior drug discovery roles. As a condition of his employment, Dr. Fridman signed a Confidential Information and Invention Assignment Agreement ("Confidentiality Agreement"). The Confidentiality Agreement prohibited Dr. Fridman from using Incyte's trade secrets and confidential information in any subsequent employment.

In September 2013, Incyte had conducted research and compiled sufficient clinical data to demonstrate that IDO-1 inhibition was effective in treating cancer. Dr. Fridman was involved in the research and development of IDO-1 inhibitors. Incyte believed that its clinical success regarding IDO-1 inhibition had enormous commercial value and took great measures to keep its research and clinical data confidential as a trade secret.

On December 20, 2013, Dr. Fridman gave Incyte notice of his intention to end his employment with Incyte. However, Dr. Fridman failed to disclose that he

would be working for Flexus, a competitor of Incyte. Dr. Fridman continued working at Incyte until March 2014, and continued to receive confidential communications from Incyte regarding the IDO-1 inhibitor research. In March 2014, Dr. Fridman left Incyte and began his employment at Flexus as Chief Scientific Officer.

On February 23, 2015, Flexus issued a press release announcing that it was being acquired by Bristol-Myers Squibb for \$1.25 billion. The release stated that Bristol-Myers Squibb was specifically interested in expanding its immuno-oncology market with the addition of Flexus' IDO-1 inhibitor program.

On March 4, 2015, Incyte filed a Complaint against Dr. Fridman in the Court of Chancery. Incyte sought injunctive relief to enjoin Dr. Fridman from working on IDO-1 development and from further allegedly disclosing trade secrets. Dr. Fridman's Confidentiality Agreement with Incyte included a dispute resolution clause, which dictated that the disputes related to Dr. Fridman's employment must be resolved by final and binding arbitration. Accordingly, Incyte sought preliminary relief in aid of arbitration.

On April 9, 2015, a teleconference was held regarding Flexus' Motion to Compel and Motion to Dismiss or Declare Moot. Flexus argued that there was nothing left to enjoin—Dr. Fridman was no longer working on the IDO-1 project and was restricted from working in that area. The Vice Chancellor stated:

There are three requests for relief being made in aid of arbitration. One is to enjoin Dr. Fridman from working on the IDO development, and the second is to enjoin him from further disclosing trade secrets.

What I am told by Dr. Fridman's counsel is that there's no longer a possibility. I assume that everything that has been averred to me in the affidavit is correct. That doesn't, it seems to me, necessarily moot the case, but it seems to go a long way toward mooting those two bases for injunctive relief in aid of arbitration. It seems to me that it will be difficult for the plaintiff now to be able to show imminent irreparable harm.

The third basis is for positive injunctive relief and return of documents that were supposedly taken in breach of a contract. That doesn't seem to me to be an appropriate request to make as a part of the preliminary injunctive relief case to preserve the status quo which is all I can really do, because Mr. Dupre, your clients agreed to arbitrate this matter, not litigate it in the Court of Chancery.<sup>1</sup>

Following the teleconference, the parties submitted a Stipulation and Proposed Order Preserving the Status Quo, whereby Dr. Fridman agreed: (1) to stop all work on IDO-1 inhibitors; and (2) to not disclose any of Incyte's trade secrets about IDO-1 inhibitors. On April 14, 2015, the Court granted the order preserving the status quo. Upon entry of the order, the case was dismissed.

On September 4, 2015, Incyte filed a Complaint against Flexus, Dr. Terry Rosen, and Dr. Juan Jaen in this Court, seeking to recover damages pursuant to the Delaware Trade Secrets Act.

On November 13, 2015, Defendants filed their Motion to Dismiss.

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<sup>1</sup> *Incyte Corp. v. Fridman*, Civil Action No. 10747-VCG, April 9, 2015 Teleconference on Motion to Compel and Motion to Dismiss or Declare Moot.

Defendants contend that the arbitration clause in Dr. Fridman's Confidentiality Agreement with Incyte is applicable to Defendants, despite them not being parties to the agreement. Defendants argue that this Court lacks subject matter jurisdiction because Incyte is equitably stopped from pursuing its claims against Defendants in state court litigation. Alternatively, Defendants argue that the case should be dismissed for failure to join an indispensable party—Dr. Fridman—because his alleged misconduct is at the center of each claim asserted against Defendants.

On December 18, 2015, Incyte filed its Answering Brief in Opposition to Defendants' Motion to Dismiss. Incyte contends that the arbitration clause is not applicable to Defendants. Incyte argues that Dr. Fridman is not a party to this action, nor is he required to be one, and although the Confidentiality Agreement is relevant in general, it is not specifically at issue in this case. Therefore, Incyte contends that the Motion to Dismiss should be denied.

On January 8, 2016, Defendants filed their Reply Brief in Support of their Motion to Dismiss.

On January 20, 2016, the Court heard oral argument on the Motion to Dismiss.

## **STANDARD OF REVIEW**

### ***Lack of Subject Matter Jurisdiction***

A party may move to dismiss a claim pursuant to Superior Court Civil Rule 12(b)(1) for “lack of jurisdiction over the subject matter.”<sup>2</sup> “The burden of establishing the Court’s subject matter jurisdiction rests with the party seeking the Court’s intervention.”<sup>3</sup> “A court does not have subject matter jurisdiction where a claim is properly committed to arbitration.”<sup>4</sup> “Because the strong public policy in favor of arbitration embodied in federal law is given equal respect in this State, a motion to dismiss for lack of subject matter jurisdiction will be granted if the ‘dispute is one that, on its face, falls within the arbitration clause of the contract.’”<sup>5</sup>

### ***Failure to Join Indispensable Party***

Pursuant to Superior Court Civil Rule 12(b)(7), the Court may dismiss a claim for failure to join a party under Superior Court Civil Rule 19, “which provides for the joinder of persons needed for just adjudication of the claims.”<sup>6</sup> Dismissal is warranted under Rule 19 “if the party not joined is indispensable to the case but cannot be made a party.”<sup>7</sup>

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<sup>2</sup> Super. Ct. Civ. R. 12(b)(1).

<sup>3</sup> *Ropp v. King*, 2007 WL 2198771, at \*2 (Del. Ch.).

<sup>4</sup> *Aquila of Delaware, Inc. v. Wilmington Trust Co.*, 2011 WL 4908406, at \*1 (Del. Super.).

<sup>5</sup> *NAMA Holdings, Inc. v. Related World Mkt. Center, LLC*, 922 A.2d 417, 429 (Del. Ch. 2007) (quoting *SBC Interactive, Inc. v. Corp. Media Partners*, 714 A.2d 758, 761 (Del. 1998)).

<sup>6</sup> *Perry v. Dover Fed. Credit Union*, 2004 WL 838840, at \*1 (Del. Super.).

<sup>7</sup> *Id.*

## ANALYSIS

### *Parties' Contentions*

#### Lack of Subject Matter Jurisdiction

Defendants contend that the Court lacks subject matter jurisdiction because the claims asserted must be resolved through arbitration. Defendants argue that the arbitration clause in Dr. Fridman's Confidentiality Agreement is applicable to the present dispute under the doctrine of equitable estoppel. The Confidentiality Agreement provides: ". . . any dispute arising out of, related to or resulting from the employment relationship between [Dr. Fridman] and the Company ('the parties') shall be resolved by final and binding arbitration . . . ." Defendants contend that although they are not signatories to the Confidentiality Agreement, they are nevertheless able to enforce the arbitration clause because the claims against Defendants are intertwined with allegations of wrongdoing by Dr. Fridman, a signatory to the Confidentiality Agreement.

Defendants contend that the arbitration clause is unmistakable in its scope and purpose. Defendants argue that the plain language of the arbitration clause states that it covers "any dispute" arising from the employment relationship. Defendants contend that each of Incyte's claims rests on the allegations against Dr. Fridman, thus requiring arbitration rather than litigation in this Court.

Incyte contends that the arbitration clause does not apply to this action.

Incyte argues that equitable estoppel allows a nonsignatory to an arbitration contract to compel a signatory to arbitrate a dispute in two limited circumstances: (1) when the signatory must rely on the terms of the arbitration contract to assert its claims; and (2) when the signatory alleges that there was “substantially interdependent and concerted misconduct by both the nonsignatory and one or more of the signatories . . . .”<sup>8</sup> Incyte contends that neither of these circumstances is present in this case.

Incyte argues that in order for the arbitration clause to be enforced by a nonsignatory, Defendants must show that Incyte is relying upon the terms of Dr. Fridman’s contract in this case. Incyte claims that although the fact that Incyte had a contract with Dr. Fridman that obligated him not to disclose trade secrets is pertinent to Incyte’s case, it is not essential. Incyte contends that the Court, or a jury, can find that Defendants misappropriated Incyte’s trade secrets without having to parse through the language of the Confidentiality Agreement.

Incyte next argues that allegations of collusion among the parties are not sufficient alone to justify equitable estoppel. Rather, equitable estoppel only applies when allegations of collusion show that the claims against the nonsignatory are “intimately founded in and intertwined with the obligations imposed by the

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<sup>8</sup> *Wilcox & Fetzer, Ltd. v. Corbett & Wilcox*, 2006 WL 2473665, \*at 4–5 (Del. Ch.).



contract containing the arbitration clause.”<sup>9</sup> Incyte states that for equitable estoppel to apply, claims against a nonsignatory must actually depend on the contract in question. Incyte argues that the claims in this case do not spring from the Confidentiality Agreement and this case does not rely on the interpretation of that agreement. Therefore, Incyte argues, equitable estoppel does not apply.

#### Failure to Join Indispensable Party

In the alternative, Defendants contend that the case should be dismissed for failure to join an indispensable party—Dr. Fridman. Defendants argue that Dr. Fridman is a necessary party to this case, as the contract at issue—the Confidentiality Agreement—is between Dr. Fridman and Incyte. Therefore, whether Dr. Fridman breached the Confidentiality Agreement is at the center of all claims asserted against Defendants.

Defendants argue that Dr. Fridman is not only a necessary party to the case, but is also an indispensable party to the case. Defendants claim that the nature of Dr. Fridman’s interest or involvement in the facts of this case, when measured against the existing circumstances, is such that the case should not go on without him. Defendants argue that if this case is litigated instead of arbitrated, Dr. Fridman will face prejudice in the form of reputational harm as his professional reputation will be attacked in open court. Defendants argue that if the case were

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<sup>9</sup> *Lenox MacLaren Surgical Corp. v. Medtronic, Inc.*, 449 Fed. Appx. 704, 710 (10th Cir. 2011).

dismissed, Incyte would still have an adequate remedy through arbitration.

Incyte contends that Dr. Fridman is neither a necessary nor an indispensable party such that the case cannot proceed without him being joined as a party. Incyte argues that although the fact that Dr. Fridman had a Confidentiality Agreement with Incyte is pertinent to the case, neither its existence nor its terms are central to Incyte's claims against Defendants. Because the Confidentiality Agreement is not central to this action, Incyte claims that Dr. Fridman does not have an interest in the case that would require him to be joined as a party. Therefore, Incyte argues, the case may proceed without Dr. Fridman.

### ***Discussion***

#### **Lack of Subject Matter Jurisdiction**

Delaware courts lack subject matter jurisdiction to resolve disputes that litigants have contractually agreed to arbitrate.<sup>10</sup> Under Delaware law, a nonsignatory to a contract may compel a signatory to arbitrate pursuant to the doctrine of equitable estoppel.<sup>11</sup> There are two circumstances under equitable estoppel where arbitration may be compelled:

*First, equitable estoppel applies when the signatory to a written agreement containing an arbitration clause must rely on the terms of the written agreement in asserting its claims against the nonsignatory. When each of a signatory's claims against a nonsignatory makes reference to or presumes the existence of the written agreement, the*

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<sup>10</sup> *NAMA Holdings*, 922 A.2d at 429.

<sup>11</sup> *Wilcox*, 2006 WL 2473665, \*at 4.

signatory's claims arise out of and relate directly to the written agreement, and arbitration is appropriate. *Second, application of equitable estoppel is warranted when the signatory to the contract containing an arbitration clause raises allegations of substantially interdependent and concerted misconduct by both the nonsignatory and one or more of the signatories to the contract. Otherwise the arbitration proceedings between the two signatories would be rendered meaningless and the federal policy in favor of arbitration effectively thwarted.*<sup>12</sup>

The Fifth Circuit applied the equitable estoppel analysis in *Grigson v. Creative Artists Agency, L.L.C.*<sup>13</sup> In *Grigson*, a film owner and the film producers filed an action against a film's lead actor and his agent for tortious interference with the film's distribution agreement.<sup>14</sup> After the film was completed, but before it was released, the main actor enjoyed success in other movies, and became increasingly more famous.<sup>15</sup> The film owner and producers delayed distribution of the film in order to take advantage of the actor's rising fame.<sup>16</sup> Plaintiffs claimed that defendants pressured the film distribution company to limit the release of the film because defendants viewed it as an improper exploitation of the actor's subsequent success.<sup>17</sup> The agreement between the film producers and distributors contained an arbitration clause.<sup>18</sup> Defendants were not signatories to that

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<sup>12</sup> *Grigson v. Creative Artists Agency, L.L.C.*, 210 F.3d 524, 527 (5th Cir. 2000) (quoting *MS Dealer Serv. Corp. v. Franklin*, 177 F.3d 942, 947 (11th Cir. 1999)) (emphasis in original).

<sup>13</sup> 210 F.3d 524 (5th Cir. 2000).

<sup>14</sup> *Id.* at 526.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

agreement, but nevertheless moved to compel arbitration.<sup>19</sup>

The District Court held that plaintiffs “were equitably estopped from relying upon Defendants’ being non-signatories . . . because the claims [were] so intertwined with, and dependent upon, the distribution agreement, its arbitration clause should be given effect.”<sup>20</sup> The Fifth Circuit affirmed the District Court’s decision to compel arbitration and held that “[t]he claims are intertwined with, and dependent upon, the distribution agreement, including, but *not* limited to, Defendants (non-signatories) and TriStar (non-defendant signatory) being charged with interdependent and concerted misconduct.”<sup>21</sup>

The Court of Chancery also has considered the doctrine of equitable estoppel. In *Wilcox & Fetzer, Ltd. v. Corbett & Wilcox*,<sup>22</sup> that Court considered whether a nonsignatory to a contract between a court reporter company and a former joint shareholder could compel arbitration pursuant to the contract. Robert Wilcox, Sr. and Kurt Fetzer were joint shareholders of Wilcox & Fetzer, a Delaware corporation offering court reporting services in Delaware.<sup>23</sup> In 2004, pursuant to a Stock Purchase Agreement, Wilcox sold his interest in the company as well as a royalty-free license to the firm’s name to Fetzer.<sup>24</sup> The agreement

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<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

<sup>21</sup> *Id.* at 531.

<sup>22</sup> 2006 WL 2473665 (Del. Ch.).

<sup>23</sup> *Id.* at \*1.

<sup>24</sup> *Id.*

contained an arbitration clause.<sup>25</sup> In 2006, Wilcox was employed by Corbett & Associates, also a court reporting company offering services in Delaware.<sup>26</sup> After Wilcox joined the company, it changed its name to Corbett & Wilcox.<sup>27</sup>

Wilcox & Fetzer filed an action against Corbett & Wilcox, alleging: (1) “Corbett & Wilcox uses a ‘confusingly similar trade name [that] creates a likelihood of confusion in the market’ and ‘wrongfully dilutes the value of the license held by Plaintiff and misappropriates the value built up in the Wilcox & Fetzer name and mark;” and (2) “that the same actions and various promotional statements made by Corbett & Wilcox violate the [Uniform Deceptive Trade Practices Act].”<sup>28</sup> Corbett & Wilcox, a nonsignatory, filed a motion to compel arbitration, pursuant to the Stock Purchase Agreement between Robert Wilcox, Sr. and Kurt Fetzer.<sup>29</sup> Corbett & Wilcox argued that Wilcox & Fetzer was equitably estopped from refusing to arbitrate its claim because Wilcox & Fetzer based its trade name claim on its rights under the agreement.<sup>30</sup> Corbett & Wilcox further contended that any common law claim made by Wilcox & Fetzer would impinge upon the rights of Wilcox under the agreement.<sup>31</sup>

The Court granted Corbett & Wilcox’s motion to compel arbitration as to

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<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> *Id.* at \*2.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.* at \*4.

<sup>31</sup> *Id.*

Count I of the complaint.<sup>32</sup> The Court found that the Complaint implicated a “concerted wrongdoing by a signatory (Wilcox) and a nonsignatory (Corbett & Wilcox).”<sup>33</sup> The Court stated that Wilcox’s rights to the use of his own name “may be adversely affected if the Court interprets Wilcox & Fetzer’s rights under the Agreement.”<sup>34</sup> The Court held that “equitable estoppel applies because Wilcox & Fetzer’s common law trade name claim is intertwined with or touches on the Agreement.”<sup>35</sup>

In the present case, Defendants seek to compel the arbitration clause in the Confidentiality Agreement between Incyte and Dr. Fridman. The arbitration clause states:

I agree that any dispute arising out of, related to or resulting from the employment relationship *between me and the Company* (“the parties”) shall be resolved by final and binding arbitration, except where the law specifically prohibits the use of arbitration as a final and binding remedy. [Emphasis added.]

The plain language of the arbitration clause states that the disputes to be arbitrated are those that arise between Dr. Fridman and Incyte. It is clear that Defendants are not signatories to the agreement. In order to compel arbitration, Defendants must demonstrate that one of the two circumstances where equitable estoppel may be invoked is applicable.

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<sup>32</sup> The Court of Chancery did not grant the motion to compel arbitration as to Count II of the Complaint, thus tacitly implying that the doctrine of equitable estoppel did not apply.

<sup>33</sup> *Wilcox & Fetzer*, 2006 WL 2473665, at \*5.

<sup>34</sup> *Id.*

<sup>35</sup> *Id.*

Defendants argue that each of Incyte's claims is inextricably intertwined with allegations of wrongdoing against Dr. Fridman, which are governed by the Confidentiality Agreement. Defendants claim that they cannot be found liable for any of the counts in the Complaint without first finding that Dr. Fridman engaged in misconduct and breached the Confidentiality Agreement.

The Court finds that the claims set forth in Counts I (Misappropriation of Trade Secrets), III (Unjust Enrichment), and IV (Conspiracy) of the Complaint stand independent of the Confidentiality Agreement. These claims against Defendants do not arise out of or relate directly to the Confidentiality Agreement. Defendants' liability as to these counts may be determined without looking to the Confidentiality Agreement. Because resolution of these claims is not dependent on parsing out the terms of the Confidentiality Agreement, the Motion to Dismiss as to Counts I, III, and IV of the Complaint is denied as to the third-party, nonsignatories to the Confidentiality Agreement.

Counts II and V of the Complaint require a different analysis. Count II of the Complaint asserts a claim for Tortious Interference with Contract. Incyte alleges that it suffered damages because "Defendants knowingly induced Dr. Fridman to *breach his contractual obligations* with Incyte by inducing him to divulge Incyte's trade secrets and confidential information."<sup>36</sup> Count V of the

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<sup>36</sup> Complaint, ¶ 55 (emphasis added).

Complaint asserts a claim for Aiding and Abetting. Incyte alleges that “Defendants substantially assisted Dr. Fridman to misappropriate, and then use for their own benefit, what they knew were Incyte’s valuable trade secrets and confidential information *in breach of Dr. Fridman’s contractual obligations*.”<sup>37</sup> Incyte relies on the terms of the Confidentiality Agreement in asserting these claims against Defendants. Dr. Fridman’s alleged misconduct and breach of the Confidentiality Agreement are central to these claims. Arbitration is appropriate as to these counts because (signatory) Incyte’s claims against (nonsignatories) Defendants arise out of and relate directly to the Confidentiality Agreement.

Further, equitable estoppel is warranted because Counts II and V of the Complaint raise allegations of substantially interdependent and concerted misconduct among Defendants (nonsignatories) and Dr. Fridman (a signatory) regarding the circumstances under which Dr. Fridman allegedly breached the Confidentiality Agreement. Therefore, because equitable estoppel applies, the Motion to Dismiss is granted as to Counts II and IV of the Complaint.

#### Failure to Join Indispensable Party

Superior Court Civil Rule 12(b)(7) provides for the dismissal of a civil action, upon a motion filed by a party, for “failure to join a party under Rule 19.”<sup>38</sup> Superior Court Civil Rule 19 controls the determination of whether a person is a

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<sup>37</sup> Complaint, ¶ 70 (emphasis added).

<sup>38</sup> Super. Ct. Civ. R. 12(b)(7).



necessary and indispensable party to a particular action. Rule 19(a) establishes the criteria for determining if a party is necessary to the action:

A person who is subject to service of process and whose joinder will not deprive the Court of jurisdiction over the subject matter of the action shall be joined as a party in the action if (1) in the person's absence complete relief cannot be accorded among those already parties, or (2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest.<sup>39</sup>

If a person falls within the Rule 19(a) criteria, but joinder is not feasible, the Court must look to Rule 19(b) and “determine whether in equity and good conscience the action should proceed among the parties before it, or should be dismissed, the absent person being thus regarded as indispensable.”<sup>40</sup> Rule 19(b) sets forth four factors that the Court must consider when determining if a person is indispensable:

First, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which, by protective provisions in the judgment, by the shaping of relief, or other measures, the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.<sup>41</sup>

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<sup>39</sup> Super. Ct. Civ. R. 19(a).

<sup>40</sup> Super. Ct. Civ. R. 19(b).

<sup>41</sup> *Id.*

Having dismissed Counts II and V, the Court finds that Dr. Fridman is not a necessary party. As to Counts I, III, and IV, complete relief may be provided in Dr. Fridman's absence. The only form of relief sought by Incyte is damages. Incyte does not argue that complete relief could not be accorded among those already parties. Dr. Fridman's absence from the case will not prevent the full measure of damages from being awarded.

Defendants argue, pursuant to Rule 19(a)(2)(i), that Dr. Fridman is a necessary party because his absence may impair or impede his ability to protect his interests. Defendants argue that Dr. Fridman's alleged breach of the Confidentiality Agreement is at the center of this case, and therefore, he has an interest in defending himself. If this case were to proceed in Dr. Fridman's absence, Defendants argue that Dr. Fridman would suffer prejudice in the form of reputational damage.

The Court of Chancery's decision in *NuVasive, Inc. v. Lanx, Inc.*<sup>42</sup> is instructive. In *NuVasive*, plaintiff sought monetary damages and injunctive relief for defendant's involvement in alleged breaches of contract by plaintiff's former employees, who were subsequently employed by defendant.<sup>43</sup> Plaintiff pursued claims against defendant for: (1) unfair competition; (2) tortious interference with contractual relations; (3) tortious interference with prospective contractual

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<sup>42</sup> 2012 WL 2866004 (Del. Ch.).

<sup>43</sup> *Id.* at \*1.

relations; (4) civil conspiracy; (5) aiding and abetting breach of fiduciary duty; and (6) misappropriation of trade secrets. Defendant argued that the former employees were necessary and indispensable parties to the litigation.

The *NuVasive* Court distinguished between the contract<sup>44</sup> and non-contract<sup>45</sup> based claims in the Complaint. The contract-based claims depended on a determination of whether the former employees breached their respective contracts with NuVasive. Therefore, the Court found that the former employees were necessary parties because “a resolution of the Contract-Based Claims will impair the former NuVasive employees’ rights.” However, with respect to the non-contract-based claims, the Court determined that the employees were not necessary parties. The Court stated that the former employees could face reputational damage should the case proceed in their absence, but held that “this harm is not sufficient to render the former NuVasive employees necessary parties.”<sup>46</sup>

In the present case, the Court already has determined that the contract-based claims—Counts II (Tortious Interference with Contract) and IV (Aiding and Abetting)—must be dismissed under the theory of equitable estoppel. The remaining Counts of the Complaint—Count I (Misappropriation of Trade Secrets),

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<sup>44</sup> The contract-based claims were: (1) unfair competition; (2) tortious interference with contractual relations; (3) tortious interference with prospective contractual relations; and (4) civil conspiracy.

<sup>45</sup> The non-contract-based claims were: (1) aiding and abetting breach of fiduciary duty; and (2) misappropriation of trade secrets.

<sup>46</sup> *NuVasive*, 2012 WL 2866004, at \*6.

Count III (Unjust Enrichment), and Count IV (Conspiracy)—stand independently and do not rely on Dr. Fridman’s alleged breach of the Confidentiality Agreement. Because the Confidentialty Agreement is not central to these claims, Counts I, III, and IV can be decided without impairing Dr. Fridman’s ability to protect his interest in defending himself against claims that he breached the agreement. No direct nexus exists between the damages sought and Dr. Fridman’s interest in defending himself. While reputational harm may result, such harm will not serve to render Dr. Fridman as a necessary party.

Defendants next contend, pursuant to Rule 19(a)(2)(ii), that Dr. Fridman is a necessary party because his absence would leave Defendants subject to a substantial risk of incurring inconsistent or multiple obligations should Incyte pursue claims against Defendants in an arbitration proceeding. There is no arbitration action currently pending against Defendants or Dr. Fridman, individually. Thus, it is speculative that Defendants and/or Dr. Fridman would be subject to a substantial risk of incurring inconsistent obligations.<sup>47</sup> Even if Incyte were to pursue an arbitration action, the “one satisfaction” rule prevents duplicative recovery and dictates that Incyte can recover the monetary damages

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<sup>47</sup> See *Miles Inc. v. Cookson America, Inc.*, 1994 WL 114867, at \*3 (Del. Ch.) (“[S]peculation about the occurrence of a future event . . . has been deemed insufficient to render all parties potentially affected by the future event to be considered as necessary or indispensable parties under Rule 19.”).

sought only once, regardless of the number of actions or defendants.<sup>48</sup>

Finally, Defendants argue that Dr. Fridman is a necessary party because he would be effectively enjoined from working on IDO-1 inhibitors. In the stipulated dismissal of the Chancery Action, Dr. Fridman agreed not to perform any work involving IDO-1 inhibitors pending the initiation of arbitration between Incyte and Dr. Fridman. Defendants argue that Dr. Fridman could be permanently enjoined from working on IDO-1 inhibitors if this case proceeds in Dr. Fridman's absence and arbitration is never initiated by Incyte.

Dr. Fridman and Incyte agreed to a stipulated dismissal of the Chancery Action in which Dr. Fridman agreed that he would not perform any work involving IDO-1 inhibitors pending the initiation of arbitration. The parties' agreement to enter into a stipulated dismissal in the Court of Chancery does not affect the remaining allegations at issue in this Court—Misappropriation of Trade Secrets, Unjust Enrichment, and Conspiracy. This Court will not disrupt the parties' agreement and the subsequent order entered by the Court of Chancery. Dr. Fridman will not be considered a necessary party in this case because his future employment interests are affected by an agreement he made to dismiss a case in another court.

Having found that Dr. Fridman is not a necessary party to the litigation, the

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<sup>48</sup> *Kingsland Holdings Inc. v. Fulvio Bracco*, 1996 WL 422340, at \*3 (Del. Ch.).

Court is not required to consider whether Dr. Fridman is indispensable. However, assuming, *arguendo*, that Dr. Fridman could be considered a necessary party, an analysis of the Rule 19(b) factors demonstrates that Dr. Fridman is not an indispensable party.

The first factor to be considered in the Rule 19(b) analysis is “to what extent a judgment rendered in the person’s absence might be prejudicial to the person or those already parties.”<sup>49</sup> Defendants argue that Dr. Fridman has a substantial interest in this case because every allegation centers on Dr. Fridman’s conduct and whether he breached the Confidentiality Agreement. Defendants contend that if the case proceeds without him, and is thus litigated instead of arbitrated, Dr. Fridman will face prejudice in the form of reputational harm, as his professional reputation will be attacked in open court.

Reputational harm has been determined to be insufficient to establish prejudice. In *Miles, Inc. v. Cookson America, Inc.*,<sup>50</sup> plaintiff brought an action against defendant for, *inter alia*, misappropriation of trade secrets. Plaintiff alleged that defendant hired former employees of plaintiff and induced them to divulge plaintiff’s trade secrets.<sup>51</sup> Defendant argued that the former employees

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<sup>49</sup> Super. Ct, Civ. R. 19(b).

<sup>50</sup> 1994 WL 114867 (Del. Ch.).

<sup>51</sup> *Id.* at \*1.

were necessary and indispensable parties to the litigation.<sup>52</sup> Defendant stated that the former employees would suffer prejudice in the form of reputational harm if they were not joined as parties to the litigation.<sup>53</sup> The Court held that this form of prejudice was “insufficient to serve as the basis for a finding of indispensability under the first factor of Chancery Rule 19(b).”<sup>54</sup> The Court stated that future reputational damage is speculative and does not qualify as the prejudice contemplated by Rule 19(b).<sup>55</sup>

In this case, the Court finds that potential reputational damage is an insufficient basis to claim prejudice. The remaining counts of the Complaint do not rely on a finding that Dr. Fridman breached his Confidentiality Agreement. Dr. Fridman’s alleged misconduct is not inextricably intertwined with the remaining allegations. Accordingly, any future damage to Dr. Fridman’s reputation is speculative and does not constitute prejudice.

The last Rule 19(b) factor requires the Court to consider “whether the Plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.”<sup>56</sup> Defendants contend that Plaintiffs will have an adequate remedy if the case is dismissed for nonjoinder because they may pursue arbitration in accordance with the Confidentiality Agreement. However, as previously discussed, Defendants are

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<sup>52</sup> *Id.*

<sup>53</sup> *Id.* at \*4.

<sup>54</sup> *Id.*

<sup>55</sup> *Id.*

<sup>56</sup> *Id.*

not signatories to the Confidentiality Agreement and equitable estoppel may only be invoked for Counts II and V. If this case were dismissed for nonjoinder, Plaintiffs would not have adequate remedy for Counts I, III, and IV.

Weighing all of the Rule 19(b) factors, the Court finds that Dr. Fridman is not an indispensable party.

### **CONCLUSION**

Counts II and V of the Complaint directly implicate the Confidentiality Agreement between Incyte and Dr. Fridman. These counts raise allegations of substantially interdependent and concerted misconduct by both Defendants (non signatories) and Dr. Fridman (a signatory). Arbitration is appropriate as to these counts because Incyte's claims against Defendants arise out of and relate directly to the Confidentiality Agreement between Incyte and Dr. Fridman. The doctrine of equitable estoppel applies. Thus, the Court lacks jurisdiction over these claims. Counts II and V must be dismissed.

Counts I, III, and IV of the Complaint do not relate directly to the Confidentiality Agreement. The resolution of these claims does not depend on parsing out the terms of the agreement. Counts I, III, and IV will not be dismissed.

Resolution of Counts I, III, and IV of the Complaint is not dependent on a determination of whether Dr. Fridman breached the Confidentiality Agreement. Speculative reputational damage, and a mere possibility of inconsistent results



from a possible future arbitration, do not warrant dismissal pursuant to Rule 12(b)(7). Dr. Fridman is neither a necessary nor indispensable party to the remaining Counts, and the case may proceed in his absence.

**THEREFORE**, the Motion to Dismiss is **GRANTED IN PART** and **DENIED IN PART**.

No Party has requested a stay of litigation pending anticipated arbitration at this time.

**IT IS SO ORDERED.**



The Honorable Mary M. Johnston